

Non Profit Accounting Rules

Non-profit organizations (NPOs) have a special set of accounting rules that do not apply to other businesses. They answer to the government, like everybody else does, but they also answer to granting agencies, boards of directors, and often several additional layers of government that other businesses don't.

Funding Sources

1. Most NPOs receive their funding from a combination of sources: multiple grants, investment income, fundraising, membership fees, financial contributions from the public and non-monetary contributions of goods. They also receive contributions in the form of hours and expertise, known as "in-kind" contributions. Grantors often require a certain percentage of matching funds to be raised by an NPO to demonstrate support for the organization from the local community or other sources. A significant amount of paperwork is required to keep track of all these requirements in addition to the basic accounting and annual government reporting.

Accounting Basics

2. To keep accurate records of expenses as they correspond to grant periods, non-profit agencies generally use the accrual method of accounting. This allows them to accrue expenses against each funding source and pay them in the first two weeks of the following month, while charging each expense off in the month in which it accrued.

Fund Accounting

3. Because several different sources of funding are used to provide services to the target population, the agency must use "fund accounting," which is a way of splitting program costs among various funding sources. Allocating expenses in correct proportion to the appropriate funds is a labor-intensive process as many expenses, such as staff salaries and benefits, must be distributed among several different grants. Likewise, all in-kind donations and non-monetary contributions must also be allocated to the appropriate programs. Everything is tied to a funding source and a

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program. Although the revenue and income statement and balance sheets include the same main categories for an NPO as for a commercial business, being able to obtain detailed sub-category totals is a vital necessity.

Government Reports

4. Form 990 must be filed annually with the IRS. The Form 990 is used by IRS to determine if the NPO will be allowed to retain its tax-exempt status, as well as to determine if the NPO has "unrelated business taxable income." Due to the non-standard financial reports required to produce the data for Form 990, accounting software used must include flexible reporting capabilities.

Other Reports Requiring Accounting Data

5. In addition to the daily accounting, non-profit organizations are required to file periodic reports to the grant providers, showing how grant monies are being spent. Such reports usually include a narrative about the program, as well as the financial information, numbers of people served, data about in-kind and matching donations used to date, and statistical information about the people served (ethnic background, family composition). A monthly or quarterly financial statement and narrative is typically provided both orally and in writing to the board of directors. Many NPOs are required to contract with a CPA firm for an annual audit, which will require preparation of many other reports and financial statements. To obtain the data needed to file all of these reports, literally dozens of internal report forms must be filled in daily, weekly, monthly and quarterly by accounting staff.